

**REPORT OF THE AUDIT OF THE  
MARTIN COUNTY  
FISCAL COURT**

**For The Year Ended  
June 30, 2020**



**MIKE HARMON  
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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

The Honorable Andy Beshear, Governor

Holly M. Johnson, Secretary

Finance and Administration Cabinet

The Honorable Colby Kirk, Martin County Judge/Executive

The Honorable William R. Davis, Former Martin County Judge/Executive

Members of the Martin County Fiscal Court

**Independent Auditor's Report**

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Martin County Fiscal Court, for the year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Martin County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



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### **Auditor's Responsibility (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the Martin County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Martin County Fiscal Court as of June 30, 2020, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Martin County Fiscal Court as of June 30, 2020, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Martin County Fiscal Court. The Budgetary Comparison Schedules (supplementary information) and Schedule of Capital Assets (other information) are presented for purposes of additional analysis and are not a required part of the financial statement; however, they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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## Other Matters (Continued)

### *Supplementary and Other Information (Continued)*

The accompanying Budgetary Comparison Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules are fairly stated in all material respects in relation to the financial statement as a whole.

The Schedule of Capital Assets has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2022, on our consideration of the Martin County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Martin County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Responses.

- 2020-001 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Receipts
- 2020-002 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements
- 2020-003 The Martin County Fiscal Court Owes \$58,000 To The County's Federal HUD Fund Due To Prior Year Failures To Have Effective Internal Controls Over Federal Grant Expenditures
- 2020-004 The Martin County Fiscal Court Did Not Have Effective Internal Controls, Review Procedures, And Oversight For The Budget Process
- 2020-005 The Martin County Fiscal Court's Disbursements Exceeded Budget Appropriations \$66,358

Respectfully submitted,



Mike Harmon  
 Auditor of Public Accounts

February 22, 2022

**MARTIN COUNTY OFFICIALS****For The Year Ended June 30, 2020****Fiscal Court Members:**

William Davis	County Judge/Executive (Resigned as Judge/Executive on 3/26/21)
Colby Kirk	County Judge/Executive (Appointed 1/10/22)
Steve Goble	Deputy Judge/Executive
Jared Goforth	Magistrate
Joseph Hunt Jr.	Magistrate
Roger D. Preece	Magistrate
Victor Slone	Magistrate (Appointed Judge on 4/6/21)
Derek Stepp	Magistrate

**Other Elected Officials:**

Melissa F. Phelps	County Attorney
Boone Mahon	Jailer
Karen Susie Skyles	County Clerk
Denise M. Guaze	Circuit Court Clerk
John Kirk	Sheriff
Bobby Hale	Property Valuation Administrator
Christopher Todd	Coroner

**Appointed Personnel:**

Susan Hale	County Treasurer
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**MARTIN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2020**

**MARTIN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2020**

	<b>Budgeted Funds</b>			
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>RECEIPTS</b>				
Taxes	\$ 436,759	\$	\$	\$
Licenses and Permits				
Intergovernmental	238,256	1,268,715	75,696	457,796
Charges for Services				
Miscellaneous	417,710	723		
Interest	86	202	20	9
Total Receipts	<u>1,092,811</u>	<u>1,269,640</u>	<u>75,716</u>	<u>457,805</u>
<b>DISBURSEMENTS</b>				
General Government	1,161,221	24,001		28,117
Protection to Persons and Property	64,803	470	436,315	
General Health and Sanitation				30,175
Social Services	5,816			
Recreation and Culture				
Roads		1,376,224		
Debt Service	19,761	58,626		
Administration	627,075	208,810	324,648	10,382
Total Disbursements	<u>1,878,676</u>	<u>1,668,131</u>	<u>760,963</u>	<u>68,674</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(785,865)</u>	<u>(398,491)</u>	<u>(685,247)</u>	<u>389,131</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	821,950	789,433	630,178	5,000
Transfers To Other Funds		(206,407)		(415,584)
Total Other Adjustments to Cash (Uses)	<u>821,950</u>	<u>583,026</u>	<u>630,178</u>	<u>(410,584)</u>
Net Change in Fund Balance	36,085	184,535	(55,069)	(21,453)
Fund Balance - Beginning (Restated)	<u>104,732</u>	<u>117,663</u>	<u>80,970</u>	<u>47,325</u>
Fund Balance - Ending	<u>\$ 140,817</u>	<u>\$ 302,198</u>	<u>\$ 25,901</u>	<u>\$ 25,872</u>
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 181,870	\$ 326,949	\$ 26,194	\$ 25,872
Less: Outstanding Checks	(41,053)	(24,751)	(293)	
Fund Balance - Ending	<u>\$ 140,817</u>	<u>\$ 302,198</u>	<u>\$ 25,901</u>	<u>\$ 25,872</u>

The accompanying notes are an integral part of the financial statement.

**MARTIN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2020**  
**(Continued)**

<b>Budgeted Funds</b>							
<b>State Grant Fund</b>	<b>Federal Grant Fund</b>	<b>Fire Protection Fund</b>	<b>Solid Waste Fund</b>	<b>Occupational Tax Fund</b>	<b>Local Government Economic Development Fund</b>	<b>HUD Fund</b>	<b>Emergency Dispatch 911 Fund</b>
\$	\$	\$	\$	\$ 1,354,287	\$	\$	\$
			25,944				
816,053	393,392						35,912
							259,221
19,173	725,754		5,218	51		7,984	75
1						53	
835,227	1,119,146		31,162	1,354,338		8,037	295,208
	279,421		16,521	35,360			
212,088		1,704		20,000			304,377
				36,122			
				50,000			
				102,333			
666,288							
			23,465	77,254			80,786
878,376	279,421	1,704	39,986	321,069			385,163
(43,149)	839,725	(1,704)	(8,824)	1,033,269		8,037	(89,955)
		1,704	18,747	70,000		45,903	140,396
(37,920)	(859,830)			(884,903)		(45,903)	(70,000)
(37,920)	(859,830)	1,704	18,747	(814,903)			70,396
(81,069)	(20,105)		9,923	218,366		8,037	(19,559)
195,462	85,595		59,018	170,218	6,611	110,554	97,710
\$ 114,393	\$ 65,490	\$ 0	\$ 68,941	\$ 388,584	\$ 6,611	\$ 118,591	\$ 78,151
\$ 114,393	\$ 65,490	\$	\$ 71,363	\$ 417,542	\$ 6,611	\$ 118,591	\$ 79,276
			(2,422)	(28,958)			(1,125)
\$ 114,393	\$ 65,490	\$ 0	\$ 68,941	\$ 388,584	\$ 6,611	\$ 118,591	\$ 78,151

The accompanying notes are an integral part of the financial statement.

**MARTIN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2020**  
**(Continued)**

	<b>Budgeted Funds</b>		<b>Unbudgeted Fund</b>	
	<b>Volunteer Fire Department Fund</b>	<b>Sheriff's Office Fund</b>	<b>Public Properties Corporation Bond Fund</b>	<b>Total Funds</b>
<b>RECEIPTS</b>				
Taxes	\$	\$	\$	\$ 1,791,046
Licenses and Permits				25,944
Intergovernmental				3,285,820
Charges for Services				259,221
Miscellaneous				1,176,688
Interest				371
Total Receipts				6,539,090
<b>DISBURSEMENTS</b>				
General Government				1,544,641
Protection to Persons and Property				1,039,757
General Health and Sanitation				66,297
Social Services				55,816
Recreation and Culture				102,333
Roads				1,376,224
Debt Service				744,675
Administration				1,352,420
Total Disbursements				6,282,163
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				256,927
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds				2,523,311
Transfers To Other Funds		(2,764)		(2,523,311)
Total Other Adjustments to Cash (Uses)		(2,764)		
Net Change in Fund Balance		(2,764)		256,927
Fund Balance - Beginning (Restated)	15	2,764	25	1,078,662
Fund Balance - Ending	\$ 15	\$ 0	\$ 25	\$ 1,335,589
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 15	\$	\$ 25	\$ 1,434,191
Less: Outstanding Checks				(98,602)
Fund Balance - Ending	\$ 15	\$ 0	\$ 25	\$ 1,335,589

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT**

**June 30, 2020**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of Martin County includes all budgeted and unbudgeted funds under the control of the Martin County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The Martin County Economic Development Authority would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis, they are no longer required components of the reporting entity.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally, except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

**Budgeted Funds (Continued)**

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal governments, payments from other counties for housing prisoners, and transfers from the general fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the general fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

State Grant Fund - The primary purpose of this fund is to account for state grant expenses of the county. The primary source of receipts for this fund is from the state.

Federal Grant Fund - The primary purpose of this fund is to account for federal grant expenses of the county. The primary sources of receipts for this fund are federal grants.

Fire Protection Fund - The primary purpose of this fund is to account for taxes collected for protection of forest lands.

Solid Waste Fund - The primary purpose of this fund is to account for fees collected for solid waste haulers providing services to customers in the county. The primary source of receipts for this fund is from the collection of solid waste license and permits.

Occupational Tax Fund - The primary purpose of this fund is to account for additional expenses of the county. The primary source of receipts for this fund is from the collection of occupational taxes.

Local Government Economic Development Fund - The primary purpose of this fund is to account for state grants received for economic development and related expenses. The primary source of receipts for this fund is state grants.

HUD Fund - The primary purpose of this fund is to account for a federal housing program in Martin County. The county received federal funds and payments from citizens that participated in the program.

Emergency Dispatch 911 Fund - The primary purpose of this fund is to account for the receipts and expenses of the 911 system. The primary source of receipts for this fund is from the collection of 911 fees.

Volunteer Fire Department Fund - The primary purpose of this fund is to account for the receipts and expenses of the Warfield Fire Department. The primary source of receipts for this fund is from fire services fees.

Sheriff's Office Fund - The primary purpose of this fund is to account for the receipts and expenses of the sheriff's office. This account is funded by the Sheriff's monthly excess fees payments.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Bond Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

The state local finance officer does not require the public properties corporation bond fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**E. Martin County Elected Officials**

Kentucky law provides for election of the officials listed below from the geographic area constituting Martin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of the Martin County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff



**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with federally insured banking institutions as required by the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*. The DLG Manual strongly recommends perfected pledges of securities covering all public funds except direct federal obligations and funds protected by federal insurance. In order to be perfected in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of the DLG *County Budget Preparation and State Local Finance Officer Policy Manual*. As of June 30, 2020, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2020.

	Road Fund	LGEA Fund	State Grant Fund	Federal Grant Fund	Occupational Tax Fund	HUD Fund	Emergency Dispatch 911 Fund	Sheriff Fund	Total Transfers In
General Fund	\$ 206,407	\$ 13,606	\$ 19,173	\$	\$ 580,000	\$	\$	\$ 2,764	\$ 821,950
Road Fund				789,433					789,433
Jail Fund		400,274			184,001	45,903			630,178
LGEA Fund					5,000				5,000
Fire Protection Fund		1,704							1,704
Solid Waste Fund			18,747						18,747
Occupational Tax Fund							70,000		70,000
HUD Fund					45,903				45,903
Emergency Dispatch 911 Fund				70,397	69,999				140,396
Total Transfers Out	<u>\$ 206,407</u>	<u>\$ 415,584</u>	<u>\$ 37,920</u>	<u>\$ 859,830</u>	<u>\$ 884,903</u>	<u>\$ 45,903</u>	<u>\$ 70,000</u>	<u>\$ 2,764</u>	<u>\$2,523,311</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Receivable - Martin County Water District**

In July 2005, the Martin County Fiscal Court issued financing obligations of \$200,000 to the Martin County Water District. The financing proceeds were paid directly to the water district. The water district makes the lease payments directly to the trustee of the lease to pay the principal and interest. The receivable reflects the principal amount due from the Martin County Water District of \$71,222 outstanding as of June 30, 2020. (See Note 5.A.1.)

**Note 5. Long-term Debt**

**A. Direct Borrowings and Direct Placements**

**1. Martin County Water District - Financing Obligation**

In July 2005, the Martin County Fiscal Court entered into a lease agreement with Kentucky Association of counties (KACO) and then issued financing obligations of \$200,000 to the Martin County Water District. (See Note 4). The financing proceeds were paid directly to the water company. The water company makes the lease payments directly to the trustee of the lease to pay principal and interest. The note requires an annual interest and principal payment due March 20th of each year with a final payment due in March 2025.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

**1. Martin County Water District - Financing Obligation (Continued)**

The lease contains provisions that in an event of default the following (a) terminate the lease term and give notice to the lessee to vacate or surrender the project within 60 days from the date of such notice (b) sell or re-lease the project or any portion thereof (c) recover from the fiscal court the lease rental payments which would otherwise have been payable during the lease, occupy or retain possession of the project (d) take whatever action at law or in equity may appear necessary or desirable to enforce its right in and to the project under this lease (including, without limitation, the right to possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law); and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreement of lessee under the lessee under this lease (subject, however, to the limitations thereon contained in this lease) and to recover damages for the breach thereof. As of June 30, 2020, the principal balance amount outstanding corresponds to the receivable due to the county (as outlined in Note 4). Principal of \$10,000 and interest of \$4,762 were paid as of June 30, 2020. Payments for the remaining years are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2021	15,000	3,934
2022	15,000	3,109
2023	15,000	2,283
2024	15,000	1,459
2025	<u>11,222</u>	<u>630</u>
Totals	<u>\$ 71,222</u>	<u>\$ 11,415</u>

**2. Tractor - Financing Obligation**

On November 24, 2014, the Martin County Fiscal Court entered into a lease agreement to finance the purchase of a track type tractor. In the event of default, CAT Financial will have all rights and remedies available under applicable law. In addition, they may declare all lease payments due or to become due during the fiscal year in which the event of default occurs to be immediately due and payable and/or we may repossess the units by giving written notice to deliver the units to CAT Financial in the manner provided, or in the event of failure to do so within (10) days after receipt of such notice, and subject to all applicable laws, CAT Financial may enter upon the premises and take possession of the units. The principal amount of the lease was \$128,190. The agreement requires variable monthly payments for five years to be paid in full December 14, 2019. As of June 30, 2020, the principal amount outstanding was \$13,460. Principal of \$13,460 and interest of \$86 were paid. As of June 30, 2020, the lease was paid in full.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

**3. Excavator - Financing Obligation**

On August 6, 2019, the Martin County Fiscal Court entered into a lease agreement to finance the purchase of an excavator. In the event of default, CAT Financial will have all rights and remedies available under applicable law. In addition, they may declare all lease payments due or to become due during the fiscal year in which the event of default occurs to be immediately due and payable and/or we may repossess the units by giving written notice to deliver the units to CAT Financial in the manner provided, or in the event of failure to do so within (10) days after receipt of such notice, and subject to all applicable laws, CAT Financial may enter upon the premises and take possession of the units. The principal amount of the lease was \$221,350. The agreement requires variable monthly payments for five years to be paid in full August 6, 2025. As of June 30, 2020, the principal amount outstanding was \$184,656. Principal of \$36,695 and interest of \$4,010 were paid as of June 30, 2020. Payments for the remaining years are as follows:

Fiscal Year Ending June 30	Principal	Scheduled Interest
2021	42,869	6,229
2022	44,016	5,081
2023	45,878	3,220
2024	47,819	1,279
2025	4,074	19
Totals	<u>\$ 184,656</u>	<u>\$ 15,828</u>

**4. Lease Agreement - Government Center Building and Refinancing of KACO Leases (Revenue Bonds 2014A)**

In March 2014, the Martin County Fiscal Court entered into a lease agreement with Kentucky Association of Counties (KACO) for the construction of their new government center building and the refinancing of existing KACO leases. The principal amount of the lease was \$10,000,000. The agreement requires variable monthly payments for 24 years to be paid in full December 20, 2038. In case of default, the lessor may (a) by appropriate court action, enforce the pledge set forth in this lease so that during the remaining lease term there is levied on all the taxable property of the lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to the pay the lease rental payments when and as due, (b) take legal title to, and sell or re-lease the project or any portion thereof, or (c) take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the project under this lease (including, without limitation, the right to possession of the project and the right to sell or re-lease or otherwise dispose of the project in accordance with applicable law); and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the lessee of the applicable covenants and agreements of the lessee under this lease (subject, however, to the limitations thereon contained in this lease) and to recover damages for the breach thereof. As of June 30, 2020, the principal amount outstanding was \$8,407,500. Principal of \$310,000 and interest of \$334,044 were paid as of June 30, 2020. Payments for the remaining years are as follows.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**A. Direct Borrowings and Direct Placements (Continued)**

**4. Lease Agreement - Government Center Building and Refinancing of KACO Leases (Revenue Bonds 2014A) (Continued)**

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2021	320,000	324,744
2022	330,000	315,144
2023	340,000	305,244
2024	352,500	295,044
2025	365,000	284,469
2026-2030	2,052,500	1,200,944
2031-2035	2,532,500	753,406
2036-2039	2,115,000	203,053
Totals	<u>\$ 8,407,500</u>	<u>\$ 3,682,048</u>

**B. Aggregate Debt Schedule**

The aggregate debt schedule is as follows:

	<u>Direct Borrowings and Direct Placements</u>	
<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2021	377,869	334,907
2022	389,016	323,334
2023	400,878	310,747
2024	415,319	297,782
2025	380,296	285,118
2026-2030	2,052,500	1,200,944
2031-2035	2,532,500	753,406
2036-2039	2,115,000	203,053
Total Long-term Debt	<u>\$ 8,663,378</u>	<u>\$ 3,709,291</u>

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**C. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Borrowings and Direct Placements	\$ 8,817,182	\$ 221,351	\$ 375,155	\$ 8,663,378	\$ 377,869
Total Long-term Debt	<u>\$ 8,817,182</u>	<u>\$ 221,351</u>	<u>\$ 375,155</u>	<u>\$ 8,663,378</u>	<u>\$ 377,869</u>

**Note 6. Employee Retirement System**

The fiscal court has elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The county's contribution for FY 2018 was \$260,350, FY 2019 was \$252,894, and FY 2020 was \$299,416.

Nonhazardous

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6 percent of their salary to be allocated as follows: 5 percent will go to the member's account and 1 percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute 5 percent of their annual creditable compensation. Nonhazardous members also contribute 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board of Directors based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 24.06 percent.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB)

A. Health Insurance Coverage - Tier 1

CERS provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Benefits are covered under KRS 78.5536 with exception of COLA and retiree health benefits after July 2003.

B. Health Insurance Coverage - Tier 2 and Tier 3 - Nonhazardous

Once members reach a minimum vesting period of 15 years, they earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually by 1.5 percent. This was established for Tier 2 members during the 2008 Special Legislative Session by House Bill 1. During the 2013 Legislative Session, Senate Bill 2 was enacted, creating Tier 3 benefits for members.

The monthly insurance benefit has been increased annually as a 1.5 percent cost of living adjustment (COLA) since July 2003 when the law changed. The annual increase is cumulative and continues to accrue after the member's retirement.

Tier 2 member benefits are covered by KRS 78.5536 with exception of COLA and retiree health benefits after July 2003. Tier 3 members are not covered by the same provisions.

C. Cost of Living Adjustments - Tier 1

The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits. During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5 percent. The COLA is not a guaranteed benefit. If a retiree has been receiving a benefit for less than 12 months, and a COLA is provided, it will be prorated based on the number of months the recipient has been receiving a benefit.

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Other Post-Employment Benefits (OPEB) (Continued)

**D. Cost of Living Adjustments - Tier 2 and Tier 3**

No COLA is given unless authorized by the legislature with specific criteria. To this point, no COLA has been authorized by the legislature for Tier 2 or Tier 3 members.

**E. Death Benefit**

If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

KRS Annual Financial Report and Proportionate Share Audit Report

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KRS also issues proportionate share audit reports for both total pension liability and other post-employment benefits for CERS determined by actuarial valuation as well as each participating county's proportionate share.

Both the Schedules of Employer Allocations and Pension Amounts by Employer and the Schedules of Employer Allocations and OPEB Amounts by Employer reports and the related actuarial tables are available online at <https://kyret.ky.gov>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

**Note 7. Deferred Compensation**

The Martin County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 501 High Street, 2<sup>nd</sup> Floor, Frankfort, KY 40601, or by telephone at (502) 573-7925.



**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 8. Insurance**

For the fiscal year ended June 30, 2020, the Martin County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Agency Trust Funds**

Agency trust funds report only those resources held on a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust funds:

Non Structural Flood Control - The primary purpose of this fund is to account for the Martin County Fiscal Court writing checks for the city of Inez. Since this fund is a fiduciary fund in nature, it is not represented in the financial statement. The balance in the non-structural flood control fund as of June 30, 2020, was \$113,267.

Local Emergency Planning Committee - The primary purpose of this fund is to provide emergency planning to protect public health and the environment. This account is for the activity of Local Emergency Planning Committee. Since this fund is a fiduciary fund in nature, it is not represented in the financial statement. The balance in the local emergency planning committee fund as of June 30, 2020, was \$1,542.

**Note 10. Related Party Transaction**

For fiscal year ending June 30, 2020, the fiscal court did business with a cleaning service that employs one of the magistrates. The fiscal court spent \$54,930 to this cleaning service for this fiscal year.

**Note 11. Interfund Receivable and Liability**

As of July 10, 2018, the Martin County Fiscal Court transferred \$75,000 from the HUD fund which is a restricted fund to the Sheriff's office. Also, June 30, 2018, \$58,000 was transferred from the HUD fund to the Federal Fund. The table below reflects fund balances after accounting for the receivable and liability that's not included on the financial statements prepared in accordance with the regulatory basis of accounting. Subsequently, On December 8, 2021, the amount \$75,000 was transferred back to the HUD fund.

	Cash Balance	Interfund Transfers	Ending Cash Balance
Sheriff Fund	\$ (72,236)	\$ (72,236)	\$ 0
HUD Fund	\$ 185,554	\$ 58,000	\$ 243,554
Federal Fund	\$ 65,490	\$ (58,000)	\$ 7,490

**MARTIN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2020**  
**(Continued)**

**Note 12. Prior Period Adjustment**

HUD Fund - Due to an error beginning balance as previously reported has been restated and increased by \$31.

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2020**

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**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2020**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 556,210	\$ 556,210	\$ 436,759	\$ (119,451)
In Lieu Tax Payments	5	5		(5)
Excess Fees	4,332	4,332		(4,332)
Intergovernmental	216,680	216,680	238,256	21,576
Miscellaneous	323,887	362,205	417,710	55,505
Interest	25	25	86	61
Total Receipts	<u>1,101,139</u>	<u>1,139,457</u>	<u>1,092,811</u>	<u>(46,646)</u>
<b>DISBURSEMENTS</b>				
General Government	1,247,263	1,241,143	1,161,221	79,922
Protection to Persons and Property	33,800	64,847	64,803	44
General Health and Sanitation	200			
Social Services	4,300	5,816	5,816	
Debt Service			19,761	(19,761)
Administration	725,266	737,341	627,075	110,266
Total Disbursements	<u>2,010,829</u>	<u>2,049,147</u>	<u>1,878,676</u>	<u>170,471</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(909,690)</u>	<u>(909,690)</u>	<u>(785,865)</u>	<u>123,825</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	<u>739,690</u>	<u>739,690</u>	<u>821,950</u>	<u>82,260</u>
Total Other Adjustments to Cash (Uses)	<u>739,690</u>	<u>739,690</u>	<u>821,950</u>	<u>82,260</u>
Net Change in Fund Balance	(170,000)	(170,000)	36,085	206,085
Fund Balance - Beginning	<u>170,000</u>	<u>170,000</u>	<u>104,732</u>	<u>(65,268)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 140,817</u>	<u>\$ 140,817</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

<b>ROAD FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,286,136	\$ 2,146,931	\$ 1,268,715	\$ (878,216)
Miscellaneous	1	1	723	722
Interest	150	150	202	52
Total Receipts	<u>1,286,287</u>	<u>2,147,082</u>	<u>1,269,640</u>	<u>(877,442)</u>
<b>DISBURSEMENTS</b>				
General Government	24,000	24,001	24,001	
Protection to Persons and Property		470	470	
Roads	762,287	1,839,585	1,376,224	463,361
Debt Service	50,181	65,208	58,626	6,582
Administration	510,559	278,558	208,810	69,748
Total Disbursements	<u>1,347,027</u>	<u>2,207,822</u>	<u>1,668,131</u>	<u>539,691</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(60,740)</u>	<u>(60,740)</u>	<u>(398,491)</u>	<u>(337,751)</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	102,503	102,503	789,433	686,930
Transfers To Other Funds	<u>(206,407)</u>	<u>(206,407)</u>	<u>(206,407)</u>	
Total Other Adjustments to Cash (Uses)	<u>(103,904)</u>	<u>(103,904)</u>	<u>583,026</u>	<u>686,930</u>
Net Change in Fund Balance	(164,644)	(164,644)	184,535	349,179
Fund Balance - Beginning	<u>164,644</u>	<u>164,644</u>	<u>117,663</u>	<u>(46,981)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 302,198</u>	<u>\$ 302,198</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 76,150	\$ 76,150	\$ 75,696	\$ (454)
Interest	6	6	20	14
Total Receipts	76,156	76,156	75,716	(440)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	420,467	597,595	436,315	161,280
Administration	352,592	355,592	324,648	30,944
Total Disbursements	773,059	953,187	760,963	192,224
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(696,903)	(877,031)	(685,247)	191,784
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	514,903	514,903	630,178	115,275
Total Other Adjustments to Cash (Uses)	514,903	514,903	630,178	115,275
Net Change in Fund Balance	(182,000)	(362,128)	(55,069)	307,059
Fund Balance - Beginning	182,000	182,000	80,970	(101,030)
Fund Balance - Ending	\$ 0	\$ (180,128)	\$ 25,901	\$ 206,029

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

<b>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 196,023	\$ 196,023	\$ 457,796	\$ 261,773
Interest	18	18	9	(9)
Total Receipts	196,041	196,041	457,805	261,764
<b>DISBURSEMENTS</b>				
General Government	31,032	31,032	28,117	2,915
Protection to Persons and Property	7,500	6,280		6,280
General Health and Sanitation	38,600	38,600	30,175	8,425
Social Services	1,300	1,300		1,300
Administration	9,180	10,400	10,382	18
Total Disbursements	87,612	87,612	68,674	18,938
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	108,429	108,429	389,131	280,702
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			5,000	5,000
Transfers To Other Funds	(153,429)	(153,429)	(415,584)	(262,155)
Total Other Adjustments to Cash (Uses)	(153,429)	(153,429)	(410,584)	(257,155)
Net Change in Fund Balance	(45,000)	(45,000)	(21,453)	23,547
Fund Balance - Beginning	45,000	45,000	47,325	2,325
Fund Balance - Ending	\$ 0	\$ 0	\$ 25,872	\$ 25,872



**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

	STATE GRANT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 666,266	\$ 666,266	\$ 816,053	\$ 149,787
Miscellaneous			19,173	19,173
Interest			1	1
Total Receipts	666,266	666,266	835,227	168,961
<b>DISBURSEMENTS</b>				
Protection to Persons and Property		228,412	212,088	16,324
Debt Service	666,266	619,691	666,288	(46,597)
Administration	85,172			
Total Disbursements	751,438	848,103	878,376	(30,273)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(85,172)	(181,837)	(43,149)	138,688
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds			(37,920)	(37,920)
Total Other Adjustments to Cash (Uses)			(37,920)	(37,920)
Net Change in Fund Balance	(85,172)	(181,837)	(81,069)	100,768
Fund Balance - Beginning	85,172	85,172	195,462	110,290
Fund Balance - Ending	\$ 0	\$ (96,665)	\$ 114,393	\$ 211,058

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

	<b>FEDERAL GRANT FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 232,234	\$ 542,600	\$ 393,392	\$ (149,208)
Miscellaneous			725,754	725,754
Total Receipts	232,234	542,600	1,119,146	576,546
<b>DISBURSEMENTS</b>				
General Government		310,366	279,421	30,945
Total Disbursements		310,366	279,421	30,945
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	232,234	232,234	839,725	607,491
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(232,234)	(232,234)	(859,830)	(627,596)
Total Other Adjustments to Cash (Uses)	(232,234)	(232,234)	(859,830)	(627,596)
Net Change in Fund Balance	0	0	(20,105)	(20,105)
Fund Balance - Beginning			85,595	85,595
Fund Balance - Ending	\$ 0	\$ 0	\$ 65,490	\$ 65,490

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

<b>FIRE PROTECTION FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)
	Original	Final	
			Variance with Final Budget Positive (Negative)
<b>DISBURSEMENTS</b>			
Protection to Persons and Property	\$ 1,704	\$ 1,704	\$ 1,704
Total Disbursements	1,704	1,704	1,704
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds	1,704	1,704	1,704
Total Other Adjustments to Cash (Uses)	1,704	1,704	1,704
Net Change in Fund Balance			
Fund Balance - Beginning			
Fund Balance - Ending	\$ 0	\$ 0	\$ 0

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

<b>SOLID WASTE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Licenses and Permits	\$ 37,500	\$ 37,500	\$ 25,944	\$ (11,556)
Miscellaneous			5,218	5,218
Total Receipts	37,500	37,500	31,162	(6,338)
<b>DISBURSEMENTS</b>				
General Government	30,004	30,004	16,521	13,483
Administration	57,496	57,496	23,465	34,031
Total Disbursements	87,500	87,500	39,986	47,514
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(50,000)	(50,000)	(8,824)	41,176
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			18,747	18,747
Transfers To Other Funds	50,000	50,000		(50,000)
Total Other Adjustments to Cash (Uses)	50,000	50,000	18,747	(31,253)
Net Change in Fund Balance			9,923	9,923
Fund Balance - Beginning			59,018	59,018
Fund Balance - Ending	\$ 0	\$ 0	\$ 68,941	\$ 68,941

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

<b>OCCUPATIONAL TAX FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,430,000	\$ 1,431,500	\$ 1,354,287	\$ (77,213)
Miscellaneous			51	51
Total Receipts	<u>1,430,000</u>	<u>1,431,500</u>	<u>1,354,338</u>	<u>(77,162)</u>
<b>DISBURSEMENTS</b>				
General Government	33,222	36,774	35,360	1,414
Protection to Persons and Property	20,400	20,400	20,000	400
General Health and Sanitation	47,000	45,787	36,122	9,665
Social Services	50,000	50,000	50,000	
Recreation and Culture	159,750	144,948	102,333	42,615
Administration	354,167	368,130	77,254	290,876
Total Disbursements	<u>664,539</u>	<u>666,039</u>	<u>321,069</u>	<u>344,970</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>765,461</u>	<u>765,461</u>	<u>1,033,269</u>	<u>267,808</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			70,000	70,000
Transfers To Other Funds	<u>(793,461)</u>	<u>(793,461)</u>	<u>(884,903)</u>	<u>(91,442)</u>
Total Other Adjustments to Cash (Uses)	<u>(793,461)</u>	<u>(793,461)</u>	<u>(814,903)</u>	<u>(21,442)</u>
Net Change in Fund Balance	(28,000)	(28,000)	218,366	246,366
Fund Balance - Beginning	<u>28,000</u>	<u>28,000</u>	<u>170,218</u>	<u>142,218</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 388,584</u>	<u>\$ 388,584</u>

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u>	<u>Final Budget</u>
			<u>(Budgetary</u>	<u>Positive</u>
			<u>Basis)</u>	<u>(Negative)</u>
<b>RECEIPTS</b>				
Intergovernmental	\$ 103,000	\$ 103,000	\$	\$ (103,000)
Total Receipts	103,000	103,000		(103,000)
<b>DISBURSEMENTS</b>				
General Government	6,611	6,611		6,611
Total Disbursements	6,611	6,611		6,611
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	96,389	96,389		(96,389)
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(103,000)	(103,000)		103,000
Total Other Adjustments to Cash (Uses)	(103,000)	(103,000)		103,000
Net Change in Fund Balance	(6,611)	(6,611)		6,611
Fund Balance - Beginning	6,611	6,611	6,611	
Fund Balance - Ending	\$ 0	\$ 0	\$ 6,611	\$ 6,611

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

	HUD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Miscellaneous	\$ 7,716	\$ 7,716	\$ 7,984	\$ 268
Interest	40	40	53	13
Total Receipts	7,756	7,756	8,037	281
<b>DISBURSEMENTS</b>				
Social Services	117,933	117,933		117,933
Total Disbursements	117,933	117,933		117,933
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(110,177)	(110,177)	8,037	118,214
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			45,903	45,903
Transfers To Other Funds			(45,903)	(45,903)
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance	(110,177)	(110,177)	8,037	118,214
Fund Balance - Beginning (Restated)	110,177	110,177	110,554	377
Fund Balance - Ending	\$ 0	\$ 0	\$ 118,591	\$ 118,591

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

<b>EMERGENCY DISPATCH FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>RECEIPTS</b>				
Intergovernmental	\$	\$	\$ 35,912	\$ 35,912
Charges for Services	265,236	265,236	259,221	(6,015)
Miscellaneous			75	75
Total Receipts	265,236	265,236	295,208	29,972
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	236,650	334,632	304,377	30,255
Administration	258,317	160,335	80,786	79,549
Total Disbursements	494,967	494,967	385,163	109,804
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(229,731)	(229,731)	(89,955)	139,776
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	129,731	129,731	140,396	10,665
Transfers To Other Funds			(70,000)	(70,000)
Total Other Adjustments to Cash (Uses)	129,731	129,731	70,396	(59,335)
Net Change in Fund Balance	(100,000)	(100,000)	(19,559)	80,441
Fund Balance - Beginning	100,000	100,000	97,710	(2,290)
Fund Balance - Ending	\$ 0	\$ 0	\$ 78,151	\$ 78,151



**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

<b>VOLUNTEER FIRE DEPARTMENT FUND</b>			
Budgeted Amounts		Actual	Variance with
Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>DISBURSEMENTS</b>			
Administration	\$ 15	\$ 15	\$ 15
Total Disbursements	15	15	15
Net Change in Fund Balance			
Fund Balance - Beginning		15	15
Fund Balance - Ending	\$ 0	\$ 15	\$ 15

**MARTIN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2020**  
**(Continued)**

<b>SHERIFF'S OFFICE FUND</b>			
Budgeted Amounts		Actual	Variance with
Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>Other Adjustments to Cash (Uses)</b>			
Transfers To Other Funds	\$ (2,764)	\$ (2,764)	\$
Total Other Adjustments to Cash (Uses)	(2,764)	(2,764)	
Net Change in Fund Balance	(2,764)	(2,764)	
Fund Balance - Beginning	2,764	2,764	
Fund Balance - Ending	\$ 0	\$ 0	\$ 0

**MARTIN COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2020**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board and according to the laws of Kentucky as required by the state local finance officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Excess of Disbursements Over Appropriations**

The state grant fund line item for debt service exceeded budget appropriations by \$46,597. Overall, the state grant fund budget was not overspent.

The general fund line item for debt service exceeded budget appropriations by \$19,761. Overall, the general fund budget was not overspent.

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**MARTIN COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Other Information - Regulatory Basis**

**For The Year Ended June 30, 2020**

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**MARTIN COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Other Information - Regulatory Basis**

**For The Year Ended June 30, 2020**

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 681,020	\$	\$	\$ 681,020
Construction In Progress	61,246			61,246
Land Improvements	370,770			370,770
Buildings	12,504,396			12,504,396
Vehicles and Equipment	3,036,591			3,036,591
Infrastructure	2,505,250			2,505,250
 Total Capital Assets	 <u>\$ 19,159,273</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 19,159,273</u>

**MARTIN COUNTY**  
**NOTES TO OTHER INFORMATION - REGULATORY BASIS**  
**SCHEDULE OF CAPITAL ASSETS**

**June 30, 2020**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Colby Kirk, Martin County Judge/Executive  
The Honorable William R. Davis, Former Martin County Judge/Executive  
Members of the Martin County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Martin County Fiscal Court for the fiscal year ended June 30, 2020, and the related notes to the financial statement which collectively comprise the Martin County Fiscal Court's financial statement and have issued our report thereon dated February 22, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Martin County Fiscal Court's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Martin County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Martin County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, 2020-003, and 2020-004 to be material weaknesses.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Martin County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* in the accompanying Schedule of Findings and Responses as items 2020-002, 2020-003, 2020-004, and 2020-005.

**Views of Responsible Official and Planned Corrective Action**

Martin County's views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The county's responses were not subjected to the auditing procedures applied in the audit of the financial statement, and accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

February 22, 2022

**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2020**

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**MARTIN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES**

**For The Year Ended June 30, 2020**

FINANCIAL STATEMENT FINDINGS:

2020-001 The Martin County Fiscal Court Did Not Have Adequate Internal Controls Over Receipts

This is a repeat finding and was included in the prior year audit report as finding 2019-004. The Martin County Treasurer prepared and deposited receipts, posted receipts to the accounting system, prepared monthly reports for the fiscal court and quarterly reports for the Department for Local Government, made cash transfers between funds and bank accounts, and performed bank reconciliations. There was no review by another person to ensure daily deposits agree to the receipts ledger.

The lack of adequate segregation of duties and too much control by one individual could result in the undetected misappropriation of assets, errors that go unnoticed, and inaccurate financial reporting to occur.

Good internal controls dictate adequate segregation of duties to prevent the same person from having complete control in the receiving, recording, and reporting of funds. A strong internal control structure includes adequate segregation of duties or strong compensating controls to offset the risk caused by the lack of segregation of duties. Without proper segregation or strong compensating controls, the County cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system.

We recommend the fiscal court strengthen internal controls by segregating the duties involved in receiving, recording, reconciling and reporting receipts. If segregation is not possible, we recommend compensating controls, such as a receipt listing prepared by another person to compare to deposit tickets and ledger posting and documentation of oversight and review by a second person.

*County Judge/Executive's Response: This item is related to the previous administration. When the current administration took office in January of 2019, changes were implemented. The Judge's Administrative Assistant opens all incoming mail and receipts all funds. Invoices and funds received are reviewed by either the Judge or Deputy Judge prior to routing to the Finance Office. The invoices are processed by the Finance Officer. Occupational taxes are routed to the Occupational Tax Director who prepares and makes the deposit, all other receipts are recorded and deposited by the Treasurer. The Finance Officer reconciles the accounts.*

2020-002 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements

This is a repeat finding and was included in the prior year audit report as finding 2019-003. The fiscal court's controls over disbursements were not operating as intended. Although, disbursements were properly authorized and had supporting documentation, proper procedures were not followed to pay timely.

The deficiencies listed below were able to occur due to lack of monitoring of controls and diminish the effectiveness of the controls put in place over disbursements by the fiscal court. These deficiencies could create errors in recording or allow for the possibility of misappropriation of assets.

As a result, the following exceptions were noted:

- Ten disbursements totaling \$641,766 were not paid within 30 days.
- Credit card transactions incurred monthly fees and interest due to not being paid timely.

**MARTIN COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2020**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-002 The Martin County Fiscal Court Does Not Have Adequate Internal Controls Over Disbursements  
 (Continued)

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Proper internal controls over disbursements are important to ensure purchase orders are created with sufficient funds available, include proper supporting documentation, and are paid in a timely manner. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Per the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, "purchases shall not be made prior to approval by the County Judge/Executive (or designee) or department head." Furthermore, KRS 65.140 requires invoices to be paid within 30 days of being received.

We recommend the fiscal court implement proper internal controls over expenditures and ensure they are operating effectively.

*County Judge/Executive's Response: The previous administration left the court with several unpaid invoices from both current and prior year. The current administration issued a bank franchise tax and doubled the occupational tax. The court updated their purchasing policy which increased the bid threshold from \$10,000 to \$30,000 to match the states.*

2020-003 The Martin County Fiscal Court Owes \$58,000 To The County's Federal HUD Fund Due To Prior Year Failures To Have Effective Internal Controls Over Federal Grant Expenditures

---

This is a follow-up finding which was included in the prior year audit report as finding 2019-008. The Martin County Fiscal Court failed to implement effective internal controls over federal grant expenditures. Specifically, the county expends and reinvests funds derived from bond refinance savings arising from a partnership with the United States Department of Housing and Urban Development (HUD) from the 1990s, where such expenditures are required by law and specific express agreement of the county to be used to support low-income housing projects in Martin County. Numerous weaknesses were noted which significantly increased the risk of fraud, misappropriation of funds, and noncompliance with federal grant funds. Prior year testing revealed that a significant portion of these funds, \$133,000, had been diverted for use to finance the operation of county government, such as for the purchase of law enforcement equipment. While the county has begun repaying those funds, \$58,000 remains yet to be repaid.

The fiscal court has not sufficiently overseen the expenditure of federal grant funds and did not prioritize implementation of an effective internal control system.

An inaccurate implementation of controls, the lack of management oversight and involvement can cause noncompliance with federal grant requirements and jeopardize the fiscal court's future funding. Here, the failure allowed a diversion of restricted funds into unallowable purposes.

Good internal controls dictate that controls be put in place over federal grant expenditures to ensure that they are spent according to the grant agreements and federal guidelines.

According to Section 3 of the HUD grant agreement, these funds are to be spent on replacing existing roofing material and sheathing, installation of permanent block foundation, doors and windows, exterior siding, insulation, replacement of damaged sheetrock, heating and cooling systems, replacement of existing plumbing and electrical system, installation of a potable drinking water supply and septic system, and renovations for handicapped accessibility.



**MARTIN COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2020**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-003    The Martin County Fiscal Court Owes \$58,000 To The County's Federal HUD Fund Due To Prior Year Failures To Have Effective Internal Controls Over Federal Grant Expenditures (Continued)

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We recommend the fiscal court implement adequate internal controls to ensure federal compliance requirements are met and continue its repayment efforts to eliminate the \$58,000 outstanding balance. This finding will be referred to the U.S. Department of Housing and Urban Development, Special Projects Division.

*County Judge/Executive's Response: This occurred during a previous administration. The court will transfer \$58,000 to the HUD fund prior to the end of the current fiscal year.*

2020-004    The Martin County Fiscal Court Did Not Have Effective Internal Controls, Review Procedures, And Oversight For The Budget Process

---

The budget approved in the fiscal court minutes and by the Department for Local Government did not agree to the amount reported on the fourth quarter report. The approved budget for receipts was a total of \$8,063,395 and the amount reported on the fourth quarter was for \$7,933,664, for a difference of \$129,731. Also, line-item budget transfers did not zero out, as a \$180,128 difference was noted in the jail fund. Line-item budget transfers are allowable to move budget capacity where needed; however, these transfers must zero out in total among all funds or else it is indicative that the county utilized budget capacity that did not exist.

The fiscal court did not have effective internal controls, review procedures, and oversight for the budget process to ensure that correct budget amounts were reported on the fourth quarter report.

Inadequate controls over the budget process resulted in the undetected errors noted above. The fiscal court relies on information presented in the quarterly financial reports and inaccurate information could lead to improper decision making.

KRS 68.210 states, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials." The Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual* requires county officials to submit quarterly reports that show, among other things, the amounts from the original budget for each category of receipts and expenditures. The fourth quarter financial report must agree to the original budget and budget amendments submitted to and approved by DLG.

We recommend the fiscal court implement effective internal controls, oversight, and review procedures to ensure all budgeted amounts reflected on the fourth quarter financial report are complete and accurate and agree to the original budget.

*County Judge/Executive's Response: For the first item - the difference between the budget and the report was an input error by treasurer inputting the original budget into the quarterly report. We have already changed the procedure to have the Finance Officer confirm the quarterly report to the budget - a second pair of eyes on the input as a compensating control.*

*For the second item - The \$180,128 was included in a budget amendment which was approved by DLG. The transfer procedure between funds from the DLG manual was correctly followed.*

**MARTIN COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For The Year Ended June 30, 2020**  
**(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2020-005 The Martin County Fiscal Court's Disbursements Exceeded Budget Appropriations \$66,358

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Disbursements exceeded budget appropriations for the following funds:

State Grants Fund	\$46,597
General Fund	\$19,761

Due to not having adequate control procedures in place such as lack of review or monitoring, the county treasurer made a mistake that went undetected.

Failure to amend the budget or exceed budgeted appropriations is a violation of Kentucky Revised Statutes. In addition, failure to monitor the budget can lead to poor financial decision making.

KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim."

We recommend the fiscal court and the county treasurer monitor the budget more closely and amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding the budget.

*County Judge/Executive's Response: This was Treasurer error but it could have been prevented if we were utilizing government/fund accounting software rather than public accounting software. We are planning to update our software by the end of the current fiscal year.*

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**MARTIN COUNTY FISCAL COURT**

**For The Year Ended June 30, 2020**

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CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM  
MARTIN COUNTY FISCAL COURT

For The Year Ended June 30, 2020

The Martin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



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County Judge/Executive



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County Treasurer